

PHILIPPINES ECONOMIC WRAP-UP

JUNE 30 - JULY 06, 2001

----- Summary -----

The peso depreciated further this week, stock prices continued to soften, and T-bill auction rates moved up. The latest (May 2001) merchandise export numbers show that exports continued to slide, while the latest inflation report (June 2001) showed some acceleration in year-on-year consumer price inflation. End summary.

These weekly reviews are available on the Embassy's web site (<http://usembassy.state.gov/manila>). We provide a longer and more detailed review of the Philippine economy in our June 2001 Economic Outlook, which is also available on our web site.

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FOREX REPORT -----

The peso depreciated further during the week to end at P52.890/US\$ on July 6, down 0.9% from June 29's P52.395 close. The local currency hit a new five-month, intra-day low of P53.10/US\$ on July 4. Tighter monitoring and scrutiny of banks' foreign exchange transactions by the Bangko Sentral ng Pilipinas (BSP, the central bank), persistent speculation of BSP intervention in the interbank foreign exchange market, and some profit-taking helped cushion the peso's fall towards the end of the trading week. The near-term prospect, according to forex

dealers, is for the peso to trade within a tight band -- with a downward bias reflecting both peace and order concerns and limited new foreign exchange inflows.

Bankers attributed the peso's weakness to end-of-quarter corporate requirements and the beginning of the third-quarter import season -- which combined with relatively tight foreign exchange liquidity (resulting from weak exports and other balance of payments flows). Bankers also told the Embassy that expectations of a weaker peso and regional currencies also may be prompting foreign exchange users to take longer positions to meet future needs and obligations. BSP Governor Rafael Buenaventura told reporters before the weekend that they had found no evidence thus far of speculative play. The BSP Governor also said in media interviews that the BSP had reminded banks of the Bangko Sentral's non-deliverable forward (NDF) hedging facility (i.e., "Currency Risk Protection Program", CRPP) as a means of meeting foreign exchange needs while relieving pressure from the currency spot market.

Exchange Rate Tables

Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
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MAY 28	50.774	50.770	160.5
29	50.703	50.500	120.4
30	50.584	50.565	177.5
31	50.495	50.500	162.6
JUN 01	50.750	50.633	150.0
JUN 04	50.800	50.765	103.5
05	50.645	50.590	121.7
06	50.643	50.720	143.0
07	50.762	50.710	85.2
08	50.803	50.910	128.1
JUN 11	51.079	51.190	181.0
12	Markets Closed		
13	51.326	51.310	191.0
14	51.309	51.360	105.6
15	51.479	51.590	122.4

JUN 18	51.819	51.975	141.5
19	52.282	52.320	109.5
20	52.071	52.010	233.8
21	52.101	52.200	122.5
22	52.281	52.210	74.5
JUN 25	52.252	52.265	54.9
26	52.307	52.270	91.5
27	52.308	52.295	55.3
28	52.366	52.370	101.5
29	52.428	52.395	96.0
JUL 02	52.612	52.700	93.0
03	52.905	52.940	113.5
04	53.025	52.930	145.5
05	52.965	52.980	111.1
06	52.901	52.890	73.5

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

Banks and securities dealers continued to bid up rates for all maturities at the Bureau of Treasury's weekly T-bill auction on July 2. The average rate for the P1 billion worth of 91-day paper on offer inched by 4.2 basis points week-on-week to 8.77%. The P1.5 billion each of 182-day and 364-day bills on offer were both undersubscribed and most bid rates higher than the government was willing to accept. The Treasury awarded only P595 million and P885 million, respectively, of the 181-day and 364-day T-bills scheduled for sale. The average rate for the 182-day bills (which were last sold on June 18 after the Treasury rejected all bids during the June 25 auction) inched up by 16.2 basis points to 9.942%; and that for the 364-day paper by 12.9 basis points to 11.221%.

Traders attributed the higher bids and the preference for shorter-term tenors to uncertainties over a weakening peso, inflation concerns, problematic government finances, and lingering political anxieties. Analysts

expect rates to move sideways with a stronger upward bias in the near-term, unless the U.S. cuts policy rates further and the Bangko Sentral follows suit. As they did this week and last, Treasury officials said that they would continue to reject "unreasonable" bids. The Philippine Monetary Board (the Bangko Sentral's highest policy making body) kept overnight rates at current levels (9% borrowing, 11.25% lending) amidst some speculation that the BSP might adopt a tightening bias to temper the peso's decline.

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
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MAY 15	9.513	10.915	11.350
MAY 21	9.306	10.750	11.352
MAY 28	9.037	10.087	11.307
JUN 04	8.913	9.839	10.792
JUN 11	8.729	9.700	10.823
JUN 18	8.653	9.780	10.965
JUN 25	8.728	no sales	11.092
JUL 02	8.770	9.942	11.221

Source: Bureau of the Treasury

Prime Lending Rates of 14 Expanded Commercial Banks

Date of Survey	Average	Range
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MAY 24	13.1013	10.75 - 14.500
MAY 31	12.8919	10.25 - 14.037
JUN 07	12.7849	10.00 - 14.000
JUN 14	12.8122	10.00 - 14.000
JUN 21	12.7828	10.00 - 14.000
JUN 28	12.6328	10.00 - 13.728
JUL 05	12.5638	10.00 - 13.770

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

The Philippine Stock Price Index (Phisix) dipped further on low volumes. The Phisix broke a consecutive ten-day losing streak on July 5 on bargain-hunting. The respite was short-lived, however, and the Phisix closed at 1396.92 on July 6, down 0.9% from June 29's 1410.07 closing level.

Philippine Stock Exchange Index (PHISIX) and
Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
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MAY 28	1395.12	412
29	1385.43	511
30	1396.50	399
31	1402.29	568
JUN 01	1416.09	669
JUN 04	1412.45	2394 /b
05	1392.71	597
06	1389.52	490
07	1406.65	405
08	1410.50	650
JUN 11	1435.77	682
12	Markets Closed	
13	1462.66	943
14	1474.11	799
15	1479.30	749
JUN 18	1470.92	393
19	1448.73	474
20	1449.45	415
21	1444.17	547
22	1439.77	1,093
JUN 25	1424.52	1,093
26	1423.44	521
27	1415.73	479
28	1414.79	436

29	1410.07	2,972 c/
JUL 02	1395.79	543
03	1392.07	464
04	1385.99	525
05	1402.23	464
06	1396.92	278

a/ includes P6.57 billion block sale of Pure Foods to San Miguel Corporation

b/ about P2 billion accounted for by trading of blue-chip Philippine Long Distance Telephone Co. (PLDT) shares (reportedly on news of a debt restructuring plan forged with creditors by PLDT's struggling subsidiary Piltel)

c/ includes P2.4 billion cross transaction in relation to Globe-Islacom merger

Source: Philippine Stock Exchange

EXPORTS CONTINUE TO SLIDE

Exports continue to perform poorly, hit hard by the economic slowdown in the United States and Japan and by the weak global demand for electronic products. According to the National Statistics Office (NSO), May 2001 export receipts contracted by 11.4% year-on-year to \$2.6 billion -- following through year-on-year declines posted in February (3.4%), March (4.0%), and April (15.8%). Receipts from shipments of electronic equipment and parts (down 19.9% in US\$ terms) also shrank year-on-year for a fourth month in a row. Cumulatively, January to May export revenues declined by 5.6% from 2000's comparable five-month level, with receipts from electronics (54% of total export receipts) down 11%. Exports to the United States (the Philippines' largest export market) accounted for 28% of total export receipts for the January-May period but suffered a 10.6% decline from 2000's comparable level. The latest numbers have contributed to increased skepticism over the economy's ability to grow even within the government's downward-revised targeted GDP growth range of 3.3% to 3.8% (adjusted a month ago from the original 3.8% to 4.2% range) for the full year.

PHILIPPINE MERCHANDISE EXPORTS
(In US\$ Millions)

	January - May 2000	May 2001	Growth (%)
TOTAL EXPORTS	14,205.8	13,406.6	(5.63)
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Agro-Based Products	678.7	656.2	(3.32)
Forest Products	8.3	7.4	(10.84)
Mineral Products	293.8	224.7	(23.52)
Petroleum Products	144.8	103.4	(28.59)
Manufactures	12,675.1	11,963.7	(5.61)
Electronics Equip. & Parts	8,181.8	7,283.6	(10.98)
Others (mainly re-exports)	405.0	451.3	11.43

Source: National Statistics Office

JUNE YEAR-ON-YEAR INFLATION AT 6.7%

The government's National Statistics Office (NSO) reported that June 2001's consumer price index (CPI) increased by 1% month-on-month, accelerating from April's 0.1% rate. That acceleration partly reflected seasonal price increases for education-related expenses (i.e., tuition fees, books, and school supplies) -- which contributed to the 2.6% month-on-month increase in the services index (from 0.3% in May). A marked month-on-month acceleration (i.e., 0.7% vs. 0.3%) in the heavily-weighted food, beverage and tobacco (FBT) index, as well as hikes in fuel, light, and water (FLW) rates, also pushed up overall month-on-month inflation.

NSO officials especially attributed the month-on-month acceleration in FBT inflation to higher prices for fish (attributed to typhoon-related supply disturbances); meat and meat products (reflecting a ban on imports due to the

mad cow and foot-and-mouth disease scares); and higher import costs passed on by dairy-product manufacturers. Meanwhile, the FLW index increased by 0.6%, reversing from May's 1.6% month-on-month decline. The NSO noted, among others, that, after declining in May, prices for liquefied petroleum gas (LPG, used for cooking by Philippine households and business establishments) rose and "purchased power adjustments" (PPA, the cost of energy generated under contracts with independent power producers, IPPs) pushed up electricity bills in June.

June 2001's 1% month-on-month CPI increase also outpaced that posted in June 2000 (0.7%) largely because of the sharper increase this time around in food prices. This resulted in a 6.7% year-on-year inflation figure for June, up from the previous month's 6.5% estimate. Vis-a-vis May, June's higher year-on-year inflation rate reflected larger increases for food commodities (4.9% from 3.8%); housing and repairs (6.7% from 6.6%); fuel, light and water (13.2% from 12.2%). Services (up 12.7%) and miscellaneous items (up 4.3%) rose at slower year-on-year rates compared with their respective 14.1% and 7.5% increases in May.

Year-on-year inflation averaged 6.7% during the first six months of 2001. A weakening peso and domestic fuel price adjustments (raised twice so far this year -- in late May and early July -- due to a weaker currency and higher world crude costs) have raised concerns over inflationary pressures in the months ahead. Recent typhoon-related damages and supply bottlenecks also are expected to push up agricultural food prices in July. Government officials announced that the government was sticking to its targeted 6-7% year-on-year inflation average for the full year (partly because prices in the second half of 2001 will be coming off a relatively higher 2000 second-semester base). They indicated, however, that the full-year 2001 average was likely to end at the upper half of that targeted range.

PHILIPPINE CONSUMER PRICE INFLATION
(IN %)

Year-on-Year	Month-on-Month
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Jan 2000	2.6	0.5
Feb	3.0	0.4
Mar	3.4	0.1
April	3.7	0.2
May	4.2	0.4
Jun	3.9	0.7
Jul	4.3	0.5
Aug	4.6	0.7
Sep	4.6	0.5
Oct	4.9	0.7
Nov	6.0	1.2
Dec	6.6	0.7
Average		
Jan-Jun	3.5	
Jan-Dec 2000	4.4	
Jan 2001	6.9	0.8
Feb	6.7	0.2
Mar	6.7	0.1
Apr	6.7	0.3
May	6.5	0.1
Jun	6.7	1.0
Average		
Jan-Jun	6.7	

Source: National Statistics Office